HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Thunder Bay CMA

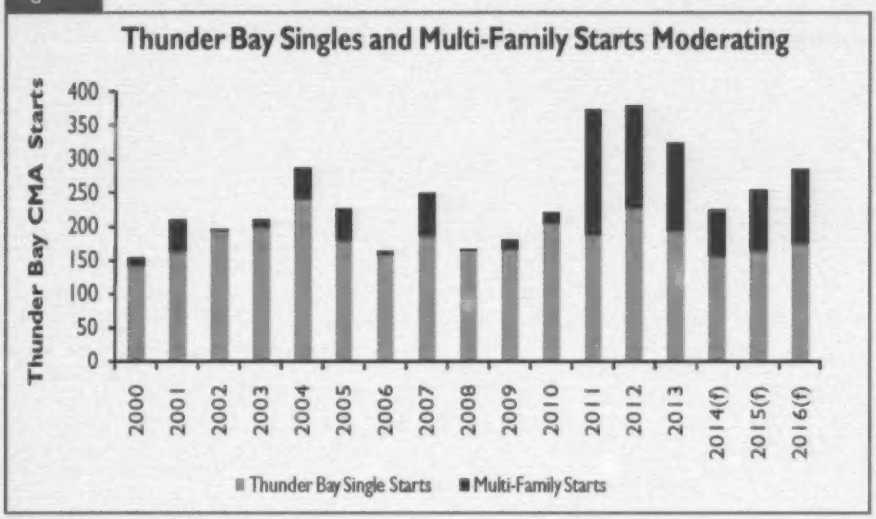
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2014

Market at a Glance

- Existing home sales will grow modestly over the forecast horizon (2014-2016) with average resale prices rising.
- Increasing supply will bring more balance to the resale market but will remain in seller's market conditions.
- Employment levels should weaken in 2014 but improve slightly in 2015.
- Total housing starts will decline this year but increase next year and into 2016.

Figure 1



Source: CMHC (f) CMHC Forecast.

The forecasts included in this document are based on information available as of October 22, 2014.

Table of Contents

1 Market at a Glance
2 New Ownership Market
3 Resale Market: Slight Sales Growth Expected Over Forecast Horizon
4 Rental Market: Rental Vacancies to Fall
4 Economic Outlook: Thunder Bay Employment To Experience Modest Growth
5 Mortgage Rate Outlook
5 Trends at a Glance
5 Forecast Risks
7 Forecast Summary

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at www.cmhc.ca/housingmarketinformation. View, print, download or subscribe to get market information e-mailed to you on the day it is released. CMHC's electronic suite of national standardized products is available for free.

New Ownership Market

A long cold winter and weaker economic growth resulted in slower single-detached housing starts thus far in 2014. Single-detached construction will dip this year twenty per cent to 155 units, slightly below the recent 2006 low. Multi-unit residential construction has slowed down as well; however, this deceleration has been partially a function of three robust years (2011-2013) where starts of these units averaged 157 units. Despite the slowdown, 2014 semi, row and apartment starts should reach the 20 year average and improve in 2015. A tight resale market, more land supply and a slightly improved economy will support more single-detached housing starts in 2015 and 2016. After a typically slow first quarter in 2015, expect second and third quarter starts next year to be the strongest in the year.

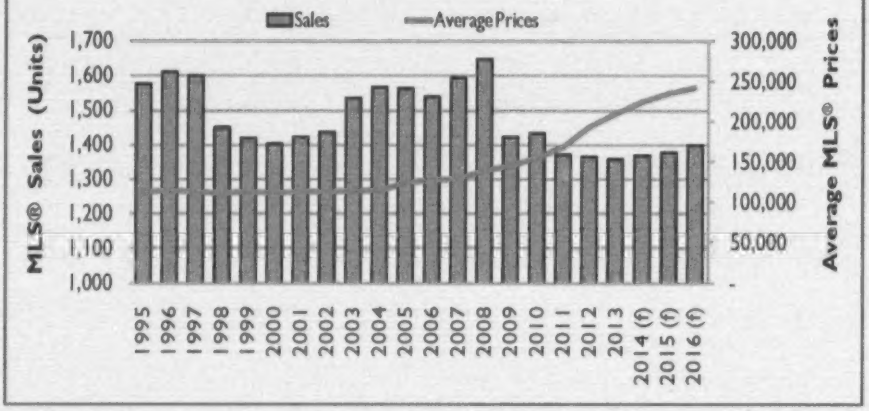
The average price of newly completed and occupied units to the end of August in 2014 compared to the same period in 2013 was off 3.8 per cent. Although absorbed prices have been somewhat weaker thus far in 2014, average prices for newly completed and occupied units are expected to rise 1.5 per cent this year and another two per cent in 2015. Once again, it appears that both affordability issues and a distribution of new homes reflecting more modest units will cause this tempering of average new home valuations.

Multi-unit construction extended in 2014, with more small scale rental fourplexes and sixplexes, as high-rise construction requires more resources not often available to small builders. Given the relatively low vacancy rate, these small scale rental dwellings where labour costs can be closely controlled by builders have been the most common form of multi-unit construction in 2014 thus far. Building permit activity suggests this type of construction will continue through the autumn. Well-situated rentals that offer modern amenities and design features appear to be competing well against existing stock, even with a rent rate premium.

Multiple unit starts will reach 70 units

Figure 2

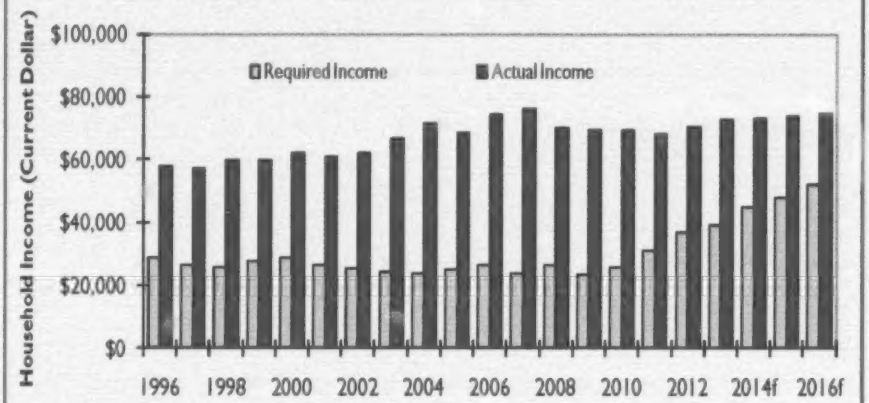
Resales and Prices To Grow Slowly in Thunder Bay Over Forecast Horizon



(f) CMHC Forecast; Note: TBREB MLS® sales are for Districts 1 & 2 only.
Source: TBREB & CREA, CMHC.
MLS® is a registered trademark of the Canadian Real Estate Association.

Figure 3

Thunder Bay Homeownership Affordability Indicator (All Households)



Sources: CMHC, Statistics Canada, CREA, f= CMHC Forecast. Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization

this year and 90 units in 2015. Both forecast totals will trail the recent peak of 153 multiple unit starts recorded in 2012 but will surpass their 20-year average. Starts of apartments, rows and semi-detached units are expected to rise again in 2016.

Resale Market: Slight Sales Growth Expected Over Forecast Horizon

Strengthening sales in September offset weaker July and August sales in 2014 bringing sales for this year's first nine months ahead 2.9 per cent year-over-year. The increase is expected to moderate so that at year-end, sales should edge up one per cent. The uptick in sales should continue in 2015 with transactions growing another 0.7 per cent. First quarter sales next year will depend on weather conditions, as is often the case, but second and third quarter sales will pick up given improved employment and improved consumer sentiment. This will lead to increased listings which will trigger a market lift in the fourth quarter.

Furthermore, relatively strong average home price increases outstripping growth in incomes is making it more challenging for prospective homeowners to purchase and carry a home. Hence, required income will grow at a higher rate when compared to actual income, resulting in homeownership affordability deterioration.

Listings are growing more rapidly than any year in the last ten, up 20 per cent year-over-year to September 30th which is causing the sales-to-new-listings ratio to fall to levels not seen since 2007.

The rise in listings, resulting from move-up buyers taking advantage of equity gains, will partly meet pent-up demand that have risen over time due to modest supply. Given this scenario, price growth should be tempered after five years of extraordinary gains. Additionally, the condos under construction and some of the small rental projects will continue to provide an alternative form of housing attractive to many empty nesters.

Average prices are still moving up in the local resale market. To the end of September, prices were up 8.1 per cent compared to the same period one year ago. CMHC expects prices to rise 6.5 per cent this year and 4.9 per cent next year and another 3.0 per cent in 2016. More listings growth is still required to bring the market into balance. Demand continues to outstrip supply in a market where first-time homebuyers and move-up buyers are trying to access desirable housing options.

Figure 4

Data to September 2014.
Source: TBREB.

Figure 5

Data to September 2014.
Source: TBREB.

Despite the rather striking increase in listings, conditions favouring sellers are still well entrenched. Bidding wars are still frequent in this environment meaning buyers have to be prepared to move quickly on a listing. Having few conditions attached to an offer to purchase provide some advantage as well in this competitive environment. Listings growth over the forecast period should serve to move most of these indicators more towards a balanced state. Nonetheless, the market will still be considered to favour sellers.

Rental Market: Rental Vacancies to Fall

CMHC is expecting a tightening vacancy rate over the forecast horizon. According to the CMHC October 2013 Rental Market Survey (RMS), the vacancy rate among apartments with at least three units in the Thunder Bay Census Metropolitan Area (CMA) rose to 2.6 per cent in October2013, up from 1.1 per cent in October 2012. By this fall, factors causing the rate to fall should have outstripped factors causing the rate to rise. CMHC expects the vacancy rate to continue declining into 2015 and 2016.

Continued positive in-migration led by area residents from Thunder Bay, Rainy River and Kenora Districts, for education, employment or retirement reasons and more international students seeking rental accommodation will tip the scale towards a lower vacancy rate in the autumn and into 2015. The decline in the vacancy rate will be tempered by the increased number of listings in the resale market which will attract some renters into homeownership. Moreover, condominium apartment completions have still yet to hit the Thunder Bay market in a significant way and some of these dwellings will be rented upon completion in 2015 and 2016, adding to rental supply.

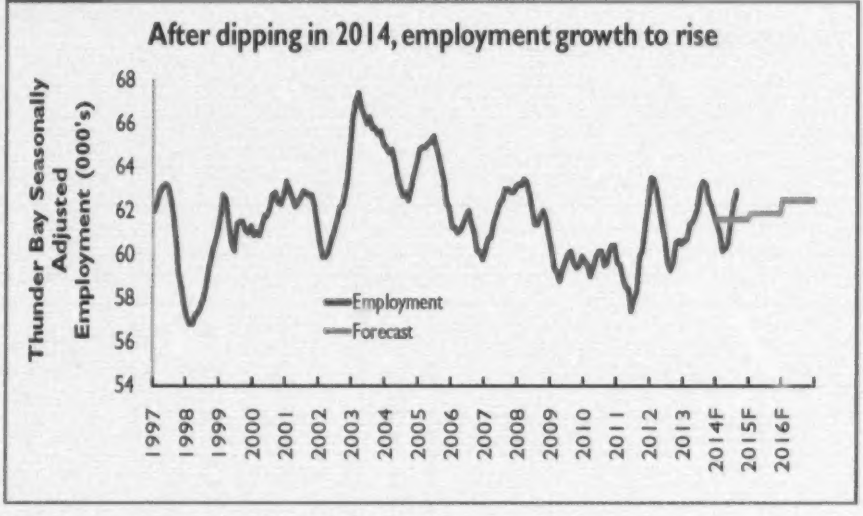
Lower vacancy rates will result in increased growth in rents with the average two-bedroom rents once again rising above the provincial rent guideline in 2014 of 0.8 per cent. Watch for Thunder Bay two bedroom rents to rise 2.4 per cent in 2014 given the tight vacancy rate environment and another 2.2 per cent in 2015 when the allowable increase is 1.6 per cent.

Economic Outlook: Thunder Bay Employment To Experience Modest Growth

Weaker precious and base metals prices have contributed to a relatively poor economic performance this year in the exploration and mine development sector of the Northwestern Ontario economy. This has led to certain project postponements thereby delaying Thunder Bay employment growth. A recently resolved labour-management dispute at the local railcar manufacturer affected consumer confidence negatively in Thunder Bay through part of the summer. The bright spots of the local job market have been the forest products sector as well as the Port of Thunder Bay, where grain shipments are approaching levels not seen since the late 1990's.

We expect a weaker Canadian dollar and an improving US economy to buoy exports in 2015 giving rise to better Thunder Bay employment prospects next year. One can expect that after slipping one per cent in 2014, employment levels will grow 0.5 per cent in 2015 and slightly more in 2016. After peaking in September 2013, employment growth weakened for seven consecutive months through the second quarter of this year. Employment retraction in sectors like education and the goods producing sector were most noticeable.

Figure 6



to September 2014, Forecast 2014, 2015, 2016.
Source: Statistics Canada Labour Force Survey

Labour force growth is presently negative and has outstripped employment losses, which is causing the unemployment rate to fall. This allowed the unemployment rate to move lower to the end of September. Expect the unemployment rate to finish the year at 5.5 per cent this year and 5.6 per cent in 2015 and then stay stable in 2016.

In parallel to weaker employment levels, average weekly earnings have flattened so that year-over-year growth is remaining under one per cent so far this year, After five years of relatively strong growth, Thunder Bay's average weekly earnings growth is well behind Ontario and national average weekly earnings growth rates. The mining economy fragility is being pointed to as a key factor in employment and wage softening. Average weekly earnings should grow 0.7 per cent this year and 0.8 per cent in 2015 and a further 0.9 per cent in 2016.

Mortgage rates		
1 Year	Q3 2014	3.14
	Change from Q3 2013	0.00
	2014 (F)	3.00 - 3.25
	2015 (F)	3.20 - 4.00
	2016 (F)	3.70 - 4.60
5 Year	Q3 2014	4.79
	Change from Q3 2013	-0.48
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00
	2016 (F)	5.55 - 6.45

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2014 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Although mortgages rates are expected to move gradually higher over the forecast horizon, they will remain low by historical standards and supportive of housing demand
Employment	Goods producing employment levels have slowed and are poised to fall this year before recovering slowly over the forecast horizon.
Income	Average weekly earnings weakening following pattern of employment growth.
Population	Migration has been positive for three years running, a requirement for population gain given deaths outstripping births annually.
Resale Market	Increased listings have potential to bring seller's market more towards a balanced market softening price growth over the forecast horizon.
Other	Mining exploration and development moving sideways given weaker commodity prices.

Forecast Risks

This outlook is subject to some risks including:

- Rapid Thunder Bay resale MLS listings growth, if sustained, could move the market rapidly closer to a balanced position, suppressing price growth after prolonged sellers' market conditions.
- Household debt-levels, while stabilizing, continue to be high relative to historical standards. Canadian debt levels relative to income may leave households vulnerable to adverse shocks.
- Given that Canada is an open economy, there are a number of global market risks to consider as well that could put added pressure on housing market supply imbalances and the ability of households to service their debt, through their impact on household incomes, employment and lending rates, were they to occur.
- There is a risk of a slowdown in China, with the chance China could miss its 2014 growth targets, coupled with uncertainty regarding the stability of the Chinese banking system.
- There is heightened concern about how renewed geo-political tensions in the Middle East could impact global markets, particularly commodities.
- While the growth forecast for the U.S. has been upgraded from a disappointing first quarter of 2014, there remains uncertainty in regards to the strength of the post-recession recovery in the U.S. A less optimistic economic growth forecast could weaken Canadian economic performance, particularly exports. While Canadian exports are showing signs of recovery, the strength of the recovery is

uncertain and could take longer than currently anticipated.

- Recent upward movements in Canadian consumer prices could lead to pressure to raise interest rates earlier than currently anticipated and would likely translate to rising mortgage rates. However, the Bank of Canada has indicated that it expects recent upward price movements to only be temporary, primarily reflecting a weak Canadian dollar

Forecast Summary Thunder Bay CMA Fall 2014									
	2011	2012	2013	2014(F)	% chg	2015(F)	% chg	2016(F)	% chg
New Home Market									
Starts:									
Single-Detached	188	227	193	155	-19.7	165	6.5	175	6.1
Multiples	186	153	131	70	-46.6	90	28.6	110	22.2
Semi-Detached	8	6	4	10	150.0	10	0.0	10	0.0
Row/Townhouse	12	17	9	10	11.1	10	0.0	20	100.0
Apartments	166	130	118	50	-57.6	70	40.0	80	14.3
Starts - Total	374	380	324	225	-30.6	255	13.3	285	11.8
Average Price ($):									
Single-Detached	324,604	355,385	432,019	438,499	1.5	447,269	2.0	456,215	2.0
Median Price ($):									
Single-Detached	312,000	329,900	429,900	425,601	-1.0	429,857	1.0	434,156	1.0
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	0.1	1.3	0.9	0.6	-	1.2	-	1.6	-
Resale Market									
MLS® Sales	1,373	1,367	1,357	1,370	1.0	1,380	0.7	1,400	1.4
MLS® New Listings	1,677	1,631	1,634	1,900	16.3	2,000	5.3	2,100	5.0
MLS® Average Price ($)	168,672	194,123	210,234	224,000	6.5	235,000	4.9	242,000	3.0
Rental Market									
October Vacancy Rate (%)	1.7	1.1	2.6	2.4	-0.2	2.2	-0.2	2.1	-0.1
Two-bedroom Average Rent (October) ($)	772	818	858	875	2.0	895	2.3	920	2.8
Economic Overview									
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.25	-	3.20 - 4.00	-	3.70 - 4.60	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-	5.55 - 6.45	-
Annual Employment Level	59,500	61,000	62,200	61,600	-1.0	61,900	0.5	62,500	1.0
Employment Growth (%)	-0.5	2.5	2.0	-1.0	-	0.5	-	1.0	-
Unemployment rate (%)	6.9	5.4	6.0	5.5	-	5.6	-	5.6	-
Net Migration	169	280	89	100	12.4	150	50.0	150	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
** Percent change > 200%

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 65 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable housing solutions that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca or follow us on Twitter, YouTube and Flickr.

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.

Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of MAC publications, call 1-800-668-2642.

©2014 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

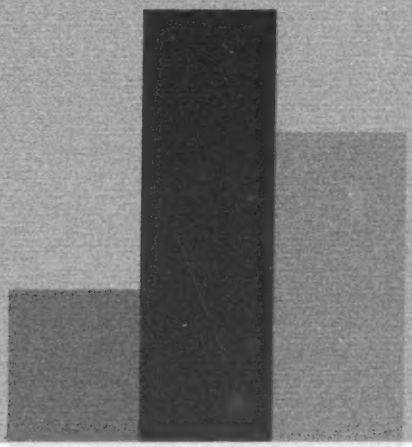
Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please contact: the Canadian Housing Information Centre (CHIC) at chic@cmhc.ca; 613-748-2367 or 1-800-668-2642.

For permission, please provide CHIC with the following information:
Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

Housing market intelligence you can count on



FREE REPORTS AVAILABLE ON-LINE

- Canadian Housing Statistics
- Condominium Owners Report
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Rental Market Provincial Highlight Reports
- Rental Market Reports, Major Centres
- Rental Market Statistics
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis –** Future-oriented information about local, regional and national housing trends.
- **Statistics and Data –** Information on current housing market activities – starts, rents, vacancy rates and much more.

HOUSING MARKET INFORMATION PORTAL

The housing data you want, the way you want it

Information in one central location.

Neighbourhood level data.

Quick and easy access.

cmhc.ca/hmiportal

65720_2014_B02